

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Deerfield	<b>County</b> Isabella
<b>Audit Date</b> March 31, 2006	<b>Opinion Date</b> August 28, 2006	<b>Date Accountant Report Submitted to State:</b> August 28, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |  |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).   |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686	<b>City</b> Bay City	<b>State</b> MI	<b>Zip</b> 48707
<b>Accountant Signature</b> <i>Campbell, Kusterer &amp; Co., P.C.</i>			

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-3
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	4
Government-wide Statement of Activities	5
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	6
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets	7
Statement of Revenues, Expenditures, and Changes in Fund Balances	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Notes to Financial Statements	10-15
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	16
Budgetary Comparison Schedule – Fire Fund	17
Other supporting information:	
General Fund Expenditures by Detailed Account	18-19
Current Tax Collection Fund – Statement of Changes in Assets and Liabilities	20

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

## INDEPENDENT AUDITOR'S REPORT

August 28, 2006

To the Township Board  
Township of Deerfield  
Isabella County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Deerfield, Isabella County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Deerfield's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Deerfield, Isabella County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Deerfield covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Overall total capital assets remained approximately the same.

Overall revenues were \$836,728.51 from governmental activities with a \$488.41 increase in net assets.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund and the Fire Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Total net assets at March 31, 2006, were \$869,975.02.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services with total expenditures of \$275,227.37.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$355,371.22 in capital assets.

The Township's governmental activities paid \$0 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township at 571 W. Pickard Road, Mount Pleasant, Michigan 48858.

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

March 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	725 803 37
Total Current Assets	<u>725 803 37</u>
NON-CURRENT ASSETS:	
Capital Assets	960 371 22
Less: Accumulated Depreciation	<u>(428 714 56)</u>
Total Non-current Assets	<u>531 656 66</u>
TOTAL ASSETS	<u>1 257 460 03</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>12 485 01</u>
Total Current Liabilities	<u>12 485 01</u>
NON-CURRENT LIABILITIES	<u>375 000 00</u>
Total Non-current Liabilities	<u>375 000 00</u>
Total Liabilities	<u>387 485 01</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	156 656 66
Unrestricted	<u>713 318 36</u>
Total Net Assets	<u>869 975 02</u>
TOTAL LIABILITIES AND NET ASSETS	<u>1 257 460 03</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
Legislative	17 222 84	-	(17 222 84)
General government	168 914 62	25 118 47	(142 796 15)
Public safety	184 041 27	502 00	(183 539 27)
Public works	91 061 37	-	(91 061 37)
Total Governmental Activities	<u>461 240 10</u>	<u>25 620 47</u>	<u>(435 619 63)</u>
General Revenues:			
Property taxes			173 608 96
State revenue sharing			213 965 14
Interest			11 818 77
Miscellaneous			<u>36 714 17</u>
Total General Revenues			<u>436 108 04</u>
Change in net assets			488 41
Net assets, beginning of year			<u>869 486 61</u>
Net Assets, End of Year			<u>869 975 02</u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
March 31, 2006

	<u>General</u>	<u>Fire</u>	<u>Total</u>
<u>Assets</u>			
Cash in bank	695 445 31	22 433 65	717 878 96
Due from (to) other funds	<u>13 906 75</u>	<u>(5 982 34)</u>	<u>7 924 41</u>
Total Assets	<u><u>709 352 06</u></u>	<u><u>16 451 31</u></u>	<u><u>725 803 37</u></u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Accounts payable	12 485 01	-	12 485 01
Total liabilities	<u>12 485 01</u>	<u>-</u>	<u>12 485 01</u>
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	696 867 05	16 451 31	713 318 36
Total fund equity	<u>696 867 05</u>	<u>16 451 31</u>	<u>713 318 36</u>
Total Liabilities and Fund Equity	<u><u>709 352 06</u></u>	<u><u>16 451 31</u></u>	<u><u>725 803 37</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	713 318 36
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	960 371 22
Accumulated depreciation	(428 714 56)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Note payable	<u>(375 000 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>869 975 02</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended March 31, 2006

	<u>General</u>	<u>Fire</u>	<u>Total</u>
Revenues:			
Property taxes	87 622 96	85 986 00	173 608 96
Licenses and permits	725 00	-	725 00
State revenue sharing	213 966 14	-	213 966 14
Charges for services – PTAF	4 442 50	-	4 442 50
Charges for services – other	262 00	502 00	764 00
Interest	11 739 27	79 50	11 818 77
Rent	19 688 97	-	19 688 97
Miscellaneous	29 711 32	7 002 85	36 714 17
Total revenues	<u>368 158 16</u>	<u>93 570 35</u>	<u>461 728 51</u>
Expenditures:			
Legislative:			
Township Board	17 222 84	-	17 222 84
General government:			
Supervisor	13 778 52	-	13 778 52
Elections	50 00	-	50 00
Assessor	17 794 00	-	17 794 00
Clerk	15 682 17	-	15 682 17
Board of Review	660 66	-	660 66
Treasurer	20 606 71	-	20 606 71
Building and grounds	46 566 19	-	46 566 19
Cemetery	3 290 93	-	3 290 93
Unallocated	32 798 44	-	32 798 44
Public safety:			
Fire protection	-	137 557 17	137 557 17
Planning and zoning	6 162 45	-	6 162 45
Ambulance	4 553 09	-	4 553 09
Public works:			
Highways and streets	<u>91 061 37</u>	<u>-</u>	<u>91 061 37</u>
Capital outlay	5 000 00	350 371 22	355 371 22
Total expenditures	<u>275 227 37</u>	<u>487 928 39</u>	<u>763 155 76</u>
Excess (deficiency) of revenues over expenditures	<u>92 930 79</u>	<u>(394 358 04)</u>	<u>(301 427 25)</u>
Other financing sources (uses):			
Loan proceeds	<u>-</u>	<u>375 000 00</u>	<u>375 000 00</u>
Total other financing sources (uses)	<u>-</u>	<u>375 000 00</u>	<u>375 000 00</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	92 930 79	(19 358 04)	73 572 75
Fund balances, April 1	<u>603 936 26</u>	<u>35 809 35</u>	<u>639 745 61</u>
Fund Balances, March 31	<u>696 867 05</u>	<u>16 451 31</u>	<u>713 318 36</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 73 572 75

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(53 455 56)
Capital Outlay	355 371 22

Receipt of debt proceeds is a financing source in the governmental funds, the receipt  
does not have an effect in the statement of activities but does increase the debt  
balance in the statement of net assets.

Loan proceeds	<u>(375 000 00)</u>
---------------	---------------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>488 41</u></u>
---	----------------------

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Deerfield, Isabella County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Deerfield. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

This fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 2 before they are added to the county tax rolls. The 2005 tax roll millage rate was 1.9621 mills, and the taxable value was \$88,490,380.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	30 years
Equipment	20 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated five banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>725 803 37</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	541 309 28
Uninsured and Uncollateralized	<u>192 315 27</u>
Total Deposits	<u>733 624 55</u>

The Township of Deerfield did not have any investments as of March 31, 2006.



TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 9 – Note Payable Fire Equipment

On June 22, 2005 the Township obtained \$375,000.00 from Fifth Third Bank to finance fire equipment. As of March 31, 2006, the principal amount outstanding was \$375,000.00. The payment schedule is as follows

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
6-22-06	15 787 49	30 933 87
6-22-07	14 485 18	32 236 18
6-22-08	13 128 04	33 593 32
6-22-09	11 713 76	35 007 60
6-22-10	10 239 94	36 481 42
6-22-11	8 704 07	38 017 29
6-22-12	7 103 54	168 730 32
Total	<u>81 162 02</u>	<u>375 000 00</u>

Note 10 – Building Permits

The Township of Deerfield does not issue building permits. Building permits are issued by the Joint Construction Code Authority.

Note 11 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	5 982 34	Fire	5 982 34
General	<u>7 924 41</u>	Current Tax Collection	<u>7 924 41</u>
Total	<u>13 906 75</u>	Total	<u>13 906 75</u>

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 9 – Note Payable Fire Equipment

On June 22, 2005 the Township obtained \$375,000.00 from Fifth Third Bank to finance fire equipment. As of March 31, 2006, the principal amount outstanding was \$375,000.00. The payment schedule is as follows

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
6-22-06	15 787 49	30 933 87
6-22-07	14 485 18	32 236 18
6-22-08	13 128 04	33 593 32
6-22-09	11 713 76	35 007 60
6-22-10	10 239 94	36 481 42
6-22-11	8 704 07	38 017 29
6-22-12	7 103 54	168 730 32
Total	<u>81 162 02</u>	<u>375 000 00</u>

Note 10 – Building Permits

The Township of Deerfield does not issue building permits. Building permits are issued by the Joint Construction Code Authority.

Note 11 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	5 982 34	Fire	5 982 34
General	<u>7 924 41</u>	Current Tax Collection	<u>7 924 41</u>
Total	<u>13 906 75</u>	Total	<u>13 906 75</u>

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	85 000 00	87 687 40	87 622 96	(64 44)
Licenses and permits	-	-	725 00	725 00
State revenue sharing	210 000 00	210 000 00	213 966 14	3 966 14
Charges for services – PTAF	-	-	4 442 50	4 442 50
Charges for services – other	1 000 00	1 000 00	262 00	(738 00)
Interest	6 000 00	6 000 00	11 739 27	5 739 27
Rent	15 000 00	15 000 00	19 688 97	4 688 97
Miscellaneous	<u>32 000 00</u>	<u>32 000 00</u>	<u>29 711 32</u>	<u>(2 288 68)</u>
Total revenues	<u>349 000 00</u>	<u>351 687 40</u>	<u>368 158 16</u>	<u>16 470 76</u>
Expenditures:				
Legislative:				
Township Board	18 000 00	18 000 00	17 222 84	(777 16)
General government:				
Supervisor	19 000 00	19 000 00	13 778 52	(5 221 48)
Elections	5 000 00	5 000 00	50 00	(4 950 00)
Assessor	25 000 00	25 500 00	17 794 00	(7 206 00)
Clerk	18 500 00	18 500 00	15 682 17	(2 817 83)
Board of Review	5 000 00	5 000 00	660 66	(4 339 34)
Treasurer	23 000 00	23 000 00	20 606 71	(2 893 29)
Building and grounds	185 000 00	185 000 00	46 566 19	(138 433 81)
Cemetery	80 000 00	80 000 00	3 290 93	(76 709 07)
Unallocated	72 000 00	67 000 00	32 798 44	(34 201 56)
Public safety:				
Planning and zoning	10 000 00	10 000 00	6 162 45	(3 837 55)
Ambulance	75 000 00	75 000 00	4 553 09	(70 446 91)
Public works:				
Highways and streets	330 000 00	330 000 00	91 061 37	(238 938 63)
Capital outlay	<u>-</u>	<u>5 000 00</u>	<u>5 000 00</u>	<u>-</u>
Total expenditures	<u>866 000 00</u>	<u>866 000 00</u>	<u>275 227 37</u>	<u>(590 772 63)</u>
Excess (deficiency) of revenues over expenditures	(517 000 00)	(514 312 60)	92 930 79	607 243 39
Fund balance, April 1	<u>538 955 08</u>	<u>538 955 08</u>	<u>603 936 26</u>	<u>64 981 18</u>
Fund Balance, March 31	<u>21 955 08</u>	<u>24 642 48</u>	<u>696 867 05</u>	<u>672 224 57</u>

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

BUDGETARY COMPARISON SCHEDULE -- FIRE FUND  
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	86 049 25	86 049 25	85 986 00	(63 25)
Charges for service	1 500 00	1 500 00	502 00	(998 00)
Interest	96 00	96 00	79 50	(16 50)
Miscellaneous	600 00	600 00	7 002 85	(6 402 85)
Total revenues	<u>88 245 25</u>	<u>88 245 25</u>	<u>93 570 35</u>	<u>5 325 10</u>
Expenditures:				
Public safety:				
Fire protection	140 227 39	140 227 89	137 557 17	(2 670 72)
Capital outlay	<u>351 000 00</u>	<u>351 000 00</u>	<u>350 371 22</u>	<u>(628 78)</u>
Total expenditures	<u>491 227 89</u>	<u>491 227 89</u>	<u>487 928 39</u>	<u>(3 299 50)</u>
Excess (deficiency) of revenues over expenditures	(402 982 64)	(402 982 64)	(394 358 04)	8 624 60
Other financing sources (uses):				
Loan proceeds	<u>375 000 00</u>	<u>375 000 00</u>	<u>375 000 00</u>	<u>-</u>
Total other financing sources (uses)	<u>375 000 00</u>	<u>375 000 00</u>	<u>375 000 00</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(27 982 64)	(27 982 64)	(19 358 04)	8 624 60
Fund balance, April 1	<u>27 982 64</u>	<u>27 982 64</u>	<u>35 809 35</u>	<u>7 826 71</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>16 451 31</u>	<u>16 451 31</u>

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT

Year ended March 31, 2006

Township Board:	
Salaries	6 450 00
Dues and education	5 476 68
Miscellaneous	5 296 16
	<u>17 222 84</u>
Supervisor:	
Salary	13 333 33
Miscellaneous	445 19
	<u>13 778 52</u>
Elections:	
Miscellaneous	50 00
	<u>50 00</u>
Assessor:	
Contracted services	17 324 00
Miscellaneous	470 00
	<u>17 794 00</u>
Clerk:	
Salary	13 333 33
Operating supplies	290 24
Miscellaneous	2 058 60
	<u>15 682 17</u>
Board of Review:	
Wages	450 00
Miscellaneous	210 66
	<u>660 66</u>
Treasurer:	
Salary	16 714 68
Operating supplies	1 352 27
Miscellaneous	2 539 76
	<u>20 606 71</u>
Building and grounds:	
Wages	10 656 00
Operating supplies	6 702 48
Contracted services	13 058 24
Utilities	6 144 98
Repairs and maintenance	7 753 00
Miscellaneous	2 251 49
	<u>46 566 19</u>
Cemetery:	
Contracted services	2 346 00
Miscellaneous	944 93
	<u>3 290 93</u>
Unallocated:	
Accounting	3 321 88
Audit	3 600 00
Attorney	549 50
Insurance	19 725 00
Pension	4 001 40
Payroll taxes	1 600 66
	<u>32 798 44</u>

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2006

Planning and zoning:	
Wages	1 175 00
Contracted services	3 000 00
Miscellaneous	1 987 45
	<u>6 162 45</u>
Ambulance:	
Contracted services	4 000 00
Miscellaneous	553 09
	<u>4 553 09</u>
Highways and streets:	
Contracted services	90 372 80
Street lighting	688 57
	<u>91 061 37</u>
Capital outlay	<u>5 000 00</u>
Total Expenditures	<u><u>275 227 37</u></u>

TOWNSHIP OF DEERFIELD  
Isabella County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash in Bank	<u>12,374.46</u>	<u>2,688,917.36</u>	<u>2,693,367.41</u>	<u>7,924.41</u>
<u>Liabilities</u>				
Due to other funds	1,746.90	184,210.55	178,033.04	7,924.41
Due to others	<u>10,627.56</u>	<u>2,504,706.81</u>	<u>2,515,334.37</u>	<u>-</u>
Total Liabilities	<u>12,374.46</u>	<u>2,688,917.36</u>	<u>2,693,367.41</u>	<u>7,924.41</u>

# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

August 28, 2006

To the Township Board  
Township of Deerfield  
Isabella County, Michigan

We have audited the financial statements of the Township of Deerfield for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of Deerfield in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."



To the Township Board  
Township of Deerfield  
Isabella County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,



CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants